

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Beta Bialy</i>	Printed Name		License Number	

**District Court Funds of
District No. 28
City of Southgate, Michigan**

**Financial Report
with Supplemental Information
June 30, 2006**

District Court Funds of District No. 28

City of Southgate, Michigan

Contents

Report Letter	1-2
Basic Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fiduciary Fund - Statement of Fiduciary Assets and Liabilities	5
Notes to Financial Statements	6-10
Required Supplemental Information	11
Budgetary Comparison Schedule	12
Other Supplemental Information	13
Schedule of Cash Receipts and Disbursements - General and Bond Accounts	14

Independent Auditor's Report

To the Honorable James A. Kandrevas,
District Judge of the 28th District Court
City of Southgate, Michigan

We have audited the accompanying financial statements of the governmental activity, the major fund, the discretely presented component unit, and the fiduciary fund of the 28th District Court of the City of Southgate, Michigan (the "District Court") as of and for the year ended June 30, 2006, which collectively comprise the District Court's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 28th District Court, City of Southgate, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity, the major fund, the discretely presented component unit, and the fiduciary fund of the 28th District Court of the City of Southgate, Michigan as of June 30, 2006 and the respective changes in financial position, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 28th District Court of the City of Southgate, Michigan's basic financial statements. The accompanying required supplemental information (budgetary comparison schedule), as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the budgetary comparison schedule, which consists primarily of inquiry of management. However, we did not audit the information and express no opinion on it. The other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Honorable James A. Kandrevas,
District Judge of the 28th District Court
City of Southgate, Michigan

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

August 29, 2006

District Court Funds of District No. 28

City of Southgate, Michigan

Statement of Net Assets June 30, 2006

	Primary Government - Governmental Activities	Component Unit Work Program
	General Fund	
Assets		
Cash and cash equivalents (Note 2)	\$ 278,959	\$ 151,288
Due from primary government	-	76,122
Capital assets (Note 5)	-	23,531
Total assets	<u><u>\$ 278,959</u></u>	<u><u>\$ 250,941</u></u>
Liabilities and Net Assets		
Liabilities		
Due to City of Southgate	\$ 129,721	\$ 39,000
Due to State of Michigan	35,411	-
Due to Wayne County	3,058	-
Due to work program	76,122	-
Trust account and other	24,745	1,387
District Court Capital Improvement Fund (held by City)	9,902	-
Total liabilities	278,959	40,387
Net Assets		
Invested in capital assets	-	23,531
Unrestricted	-	187,023
Total net assets	-	210,554
Total liabilities and net assets	<u><u>\$ 278,959</u></u>	<u><u>\$ 250,941</u></u>

Note to Reader - The statement of net assets is prepared under the full accrual method. For the governmental activities, there are no reconciling items between this method of accounting and the fund-based balance sheet, which is to be presented under the modified accrual method. Therefore, separate presentation of the fund-based balance sheet is excluded from the basic financial statements.

District Court Funds of District No. 28

City of Southgate, Michigan

Statement of Activities Year Ended June 30, 2006

	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
Functions/Programs						
Primary government:						
Governmental activities -						
Court activities	<u>\$ 117,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	\$ (117,870)	\$ -
Component unit - Work program	<u>\$ 468,295</u>	<u>\$ 446,302</u>	<u>\$ 66,857</u>	<u>\$ -</u>	-	44,864
					117,870	-
Change in Net Assets					-	44,864
Net Assets - Beginning of year					-	165,690
Net Assets - End of year					<u>\$ -</u>	<u>\$210,554</u>

Note to Reader - The statement of activities is prepared under the full accrual method. There are no reconciling items between this method of accounting and the fund-based statement of changes in fund balance, which is to be presented under the modified accrual method. Therefore, presentation of the fund-based statement of changes in fund balance is excluded from the basic financial statements.

District Court Funds of District No. 28

City of Southgate, Michigan

Fiduciary Fund

Statement of Fiduciary Assets and Liabilities

June 30, 2006

	Agency Fund - Bond Account
	<hr/>
Assets - Cash and cash equivalents	\$ 205,047
	<hr/>
Liabilities - Deposits	\$ 205,047
	<hr/>

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2006

Note I - Significant Accounting Policies

The accounting policies of the 28th District Court (the "District Court") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

Reporting Entity

The District Court is governed by one elected judge. The District Court's district control unit is the City of Southgate (the "City"). As required by accounting principles generally accepted in the United States of America, these financial statements present the District Court and its component unit. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The work program is a component unit (not-for-profit organization) and is included in the District Court's reporting entity because of the significance of its operational or financial relationships with the District Court. The work program has a separate federal identification number and is used to account for fees paid by defendants and the expenses related to community services performed by and provided to defendants. The work program is governed by the judge. The District Court is responsible for traffic and moving violations, certain civil matters, and misdemeanors within the city limits.

Fund Accounting

The accounts of the District Court and its component unit are organized on the basis of funds, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Fund - The financial activities of the General Fund are generally limited to the collection of amounts that are subsequently returned or paid to third parties. However, the general account is also responsible for the payment of various operating expenses of the District Court and is, therefore, classified as a governmental fund.

Fiduciary Fund - The bond account of the District Court is an Agency Fund. The financial activities of the fund are limited to collections of amounts that are subsequently returned or paid to third parties. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2006

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District Court's financial statements consist of a statement of net assets and a statement of activities for the General Fund and the component unit work program. The financial statements also contain fiduciary fund financial statements for the bond account.

The statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets includes and recognizes all long-term assets as well as long-term debt and obligations, if any. There were no long-term obligations at June 30, 2006. The District Court's net assets are reported in two parts - invested in capital assets and unrestricted net assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The bond account is reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The District Court has elected not to follow private-sector standards issued after November 30, 1989 for its activities.

Assets, Liabilities, and Net Assets

Capital Assets - Capital assets are defined by the District Court as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market values at the date of donation.

At June 30, 2006, capital assets consist strictly of vehicles for the component unit. Vehicles are depreciated using the straight-line method over a 5- or 10-year life.

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2006

Note 1 - Significant Accounting Policies (Continued)

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are recorded at fair value, based on quoted market prices.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The District Court is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States, repurchase agreements, bankers' acceptances of United States banks, commercial paper rated within the two highest classifications which matures not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade, and bank investment pools and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The District Court has designated one bank for the deposit of District Court funds. The investment policy adopted by the District Court in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, mutual funds, bank investment pools, and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The District Court's deposits and investment policy are in accordance with statutory authority.

The District Court's cash and investments are subject to custodial credit risk, which is examined in more detail below:

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2006

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District Court's deposits may not be returned to it. The District Court does not have a deposit policy for custodial credit risk. At year end, the District Court had \$284,000 and the component unit had \$52,000 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The District Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District Court evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Court Operations

The majority of the costs relating to the operation of the District Court are budgeted items of the City of Southgate, Michigan's General Fund and, accordingly, such costs are paid by the City's General Fund. The District Court did incur operating expenses of \$117,870 in the General Fund. These operating expenses were budgeted for and are disclosed in detail in the required supplemental information section. The Court adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations. The budget is prepared prior to the start of the fiscal year in conjunction with the City's budget. City management prepares the budget after reviewing prior year expenditures and considering expected changes in costs and presents the budget to council for approval. During the year, management amends the budget as expectations change. The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

Note 4 - Risk Management

The District Court is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District Court, through the City, has purchased commercial insurance for medical benefit claims; the District Court is uninsured for general liability, property loss, and workers' compensation claims. The District Court participates with the City in the Michigan Municipal Risk Management Authority risk pool. The City estimates related liabilities at year end. The District Court's liability at June 30, 2006 is immaterial. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the District Court's component unit was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets being depreciated - Vehicles	\$ 83,926	\$ -	\$ -	\$ 83,926
Less accumulated depreciation	(51,720)	(8,675)	-	(60,395)
Net capital assets	<u>\$ 32,206</u>	<u>\$ (8,675)</u>	<u>\$ -</u>	<u>\$ 23,531</u>

Depreciation expense was \$8,675 for the year ended June 30, 2006.

Required Supplemental Information

District Court Funds of District No. 28

City of Southgate, Michigan

Required Supplemental Information

Budgetary Comparison Schedule

June 30, 2006

<u>Operating Expenditures</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Office supplies	\$ 2,500	\$ 2,500	\$ 3,355	\$ (855)
Operating supplies	12,000	12,000	17,147	(5,147)
Professional fees	28,400	28,400	37,801	(9,401)
Dues and subscriptions	6,500	6,500	6,595	(95)
Communications	6,000	6,000	7,260	(1,260)
Travel and training	5,000	5,000	2,071	2,929
Public utilities	13,000	13,000	13,095	(95)
Repairs and maintenance	13,600	13,600	11,441	2,159
Rentals	18,200	18,200	18,585	(385)
Miscellaneous	1,500	1,500	520	980
Total operating expenditures	<u>\$ 106,700</u>	<u>\$ 106,700</u>	<u>\$ 117,870</u>	<u>\$ (11,170)</u>

Note: The District Court did not budget revenue. The District Court retains funds from the transfer to the City to cover all expenses.

Other Supplemental Information

District Court Funds of District No. 28

City of Southgate, Michigan

Schedule of Cash Receipts and Disbursements

General and Bond Accounts

Year Ended June 30, 2006

	General Account	Bond Account	Total
Cash and Cash Equivalents - July 1, 2005	\$ 291,453	\$ 257,836	\$ 549,289
Receipts			
Fines and fees collected	2,614,095	-	2,614,095
Receipts	-	665,167	665,167
Trust accounts and restitution	11,733	-	11,733
Total receipts	2,625,828	665,167	3,290,995
Disbursements			
Transfers:			
City of Southgate	1,400,568	-	1,400,568
State of Michigan	420,663	-	420,663
Capital Improvement Fund	117,606	-	117,606
Wayne County	31,231	-	31,231
Transfer to work program	523,068	-	523,068
Bond refunds and forfeitures	-	714,546	714,546
Operating expense	117,870	-	117,870
Bank fees	8,056	3,410	11,466
Trust accounts, restitution, and other	19,260	-	19,260
Total disbursements	2,638,322	717,956	3,356,278
Cash and Cash Equivalents - June 30, 2006	\$ 278,959	\$ 205,047	\$ 484,006